



Chief Albert Luthuli Local Municipality
Annual Financial Statements
for the year ended 30 June 2017

Audited

By

2017 -11- 30

Auditor General South Africa
Mpumalanga Business Unit

Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30 June 2017

General Information

Legal form of entity	Local municipality
Municipal demarcation code	MP301
Executive Mayor	Nkosi DP
Speaker	Mngomezulu MW
Chief Whip	Masuku-Sidu L
Mayoral committee	Magagula MP Nkosi SZ Makhubela NV Msibi-Nkosi N
Councillors	Cindi NR Dlulu ZM Hlatswayo MG Lubede EJ Maduna ME Mekene J Ginindza SV Malaza STQ Masuku BM Shiba BP Mbhele JS Mdluli NI Mhlanga PP Mkhabela EB Mayaba L.M Mnisi ST Mnisi N Motaung RM Motha TW Mthombeni SF Neethling ML Ngubeni A Nkabinde NJ Nkosi AD Nkosi SM Nkosi FE Nkosi GJ Nkosi JS Nkosi MH Nkosi MJ Nkosi NM Nkosi SJ Nkosi SP Nkosi TJ Nkosi VL

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General Information

Ntuli FJ	
Phakathi FDM	
Shabangu LD	
Nkosi TB	
Nkosi BG	
Sikhakane NB	
Simelani JD	
Soko JP	
Steenkamp ML	
Thabethe QG	
Thomo NG	
Vilakazi RG	
Zulu TW	
Zwane TE	
Zwane FC	
Thabede MJ	
Mthembu MS	
Malaza MA	
Ngwenya RD	
Madonsela ZJ	
Shongwe JD	
Jele JJ	
Nhlabathi NC	
Khumalo MJ	
Mkhwanazi HLZ	
Zulu GG	
Ngoma ZSG	
Van Der Walt L	
Ntjana ML	
Matshaba KA	
Hlabathi PZ	
Ndebele JCH	
Zulu W	
Mazibuko KM	
Mbuli TG	
Khoza DP	
Grading of local authority	Grade 3
Capacity of local authority	Medium capacity
Accounting Officer	Dlamini MS
Chief Finance Officer (CFO)	Hlophe OG (Acting)
Registered office	28 Kerk Street Carolina Mpumalanga 1185
Business address	28 Kerk Street Carolina

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General Information

	Mpumalanga 1185
Postal address	Private Bag X24 Carolina 1185
Bankers	Standard Bank of South Africa Limited
Auditors	Auditor-General of South Africa

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Abbreviations

GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)



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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 8 to 78, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on by:

Accounting Officer
Designation

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Annual Financial Statements for the year ended 30 June 2017

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2017.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 4 meetings were held.

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The quality of in-year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the unaudited annual financial statements with the accounting officer;
- reviewed changes in accounting policies and practices;
- reviewed the entity's compliance with legal and regulatory provisions;

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Annual Financial Statements for the year ended 30 June 2017

Audit Committee Report

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audit.

Chairperson of the Audit Committee

Date: _____

Chief Albert Luthuli Local Municipality

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Annual Financial Statements for the year ended 30 June 2017

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2017.

1. Review of activities

Main business and operations

Net surplus of the municipality was R88,548,345 (2016: surplus R80,230,345).

2. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had accumulated surpluses of R1,074,047,549 (2016: R942,228,270).

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations of such Statements issued by the Accounting Standards Board.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

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Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	1,962,721	398,284
Receivables from exchange transactions	4	44,521,462	38,480,674
Receivables from non-exchange transactions	5	128,451,247	88,179,828
Inventories	6	2,972,962	2,509,045
Other financial assets	7	3,567,722	3,151,809
VAT receivable	52	24,572,953	4,179,262
Operating lease asset	8	614,739	882,283
		206,663,806	137,781,185
Non-Current Assets			
Other financial assets	7	330,712	307,618
Investment property	9	69,903,786	54,082,100
Property, plant and equipment	10	1,086,695,099	1,008,614,771
		1,156,929,597	1,063,004,489
Total Assets		1,363,593,403	1,200,785,674
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	234,457,801	202,199,194
Finance lease obligation	12	1,398,030	493,012
Unspent conditional grants and receipts	13	1,082,358	2,664,288
Provisions	14	12,580,866	12,881,357
		249,519,055	218,237,851
Non-Current Liabilities			
Finance lease obligation	12	2,118,678	430,853
Provisions	14	28,003,641	22,542,992
Employee benefit obligation	15	9,587,082	10,338,000
Long service award	16	6,405,496	7,423,000
		46,114,897	40,734,845
Total Liabilities		295,633,952	258,972,696
Net Assets			
Accumulated surplus		983,258,988	857,112,515
Reserves			
Revaluation reserve	17	84,700,463	84,700,463
Total Net Assets		1,067,959,451	941,812,978

* See Note 53

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Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	37,640,818	35,144,258
Rental income	20	843,265	2,642,970
Interest received - consumers	21	14,808,090	24,484,144
Licences and permits	23	7,625	1,944,052
Other income	24	8,073,026	1,347,017
Gain on disposal of assets	18	-	(79,218)
Interest received - investments	22	1,970,757	2,244,682
Fair value adjustments	40	16,481,692	32,717,150
Total revenue from exchange transactions		79,825,273	100,445,055
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	80,134,532	54,577,809
Transfer revenue			
Government grants and subsidies	26	354,764,813	350,719,178
Donations	27	642,926	3,729,658
Fines	28	17,161,738	5,213,955
Rehabilitation provision movement	33	-	3,315,359
Total revenue from non-exchange transactions		452,704,009	417,555,959
Total revenue	18	532,529,282	518,001,014
Expenditure			
Employee related costs	29	(140,016,367)	(136,065,413)
Remuneration of councillors	30	(15,345,055)	(15,028,644)
Depreciation	31	(46,842,633)	(40,980,017)
Finance costs	32	(5,580,269)	(280,048)
Debt Impairment	34	(55,128,702)	(46,423,484)
Repairs and maintenance	35	(15,696,998)	(21,753,805)
Bulk purchases	36	(77,831,596)	(56,660,171)
Contracted services	37	(33,841,172)	(47,662,958)
Loss on disposal of assets	38	-	(336,761)
General expenses	39	(53,698,145)	(39,774,276)
Total expenditure		(443,980,937)	(404,965,577)
Surplus for the year		88,548,345	113,035,437

* See Note 53

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Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	24,046,763	751,354,339	775,401,102
Balance at 01 July 2015 as restated*	24,046,763	751,354,339	775,401,102
Changes in net assets			
Expenses incorrectly capitalised as WIP	-	(7,277,261)	(7,277,261)
Net income (losses) recognised directly in net assets	-	(7,277,261)	(7,277,261)
Surplus for the year	-	113,035,437	113,035,437
Total recognised income and expenses for the year	-	105,758,176	105,758,176
Revaluation of Land	60,653,700	-	60,653,700
Total changes	60,653,700	105,758,176	166,411,876
Opening balance as previously reported	24,046,763	857,112,511	881,159,274
Adjustments			
Adjustments	-	37,598,132	37,598,132
Restated* Balance at 01 July 2016 as restated*	84,700,463	894,710,643	979,411,106
Changes in net assets			
Surplus for the year	-	88,548,345	88,548,345
Total changes	-	88,548,345	88,548,345
Balance at 30 June 2017	84,700,463	983,258,988	1,067,959,451

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* See Note 53

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Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Service charges		54,840,233	24,419,994
Government grants and subsidies		353,182,882	348,435,074
Interest received - investments		1,970,757	2,244,682
Interest income - consumers		14,808,090	24,484,144
Other receipts		26,631,913	11,148,484
		<u>451,433,875</u>	<u>410,732,378</u>
Payments			
Employee related costs		(156,650,224)	(148,634,828)
Suppliers		(164,086,645)	(142,311,045)
Finance costs		(5,495,646)	(165,926)
		<u>(326,232,515)</u>	<u>(291,111,799)</u>
Net cash flows from operating activities	42	<u>125,201,360</u>	<u>119,620,579</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(119,661,129)	(121,639,185)
Proceeds from sale of property, plant and equipment	10	-	733,787
Movement in operating lease asset		(267,544)	614,739
Movement in Investments		(439,007)	-
Net cash flows from investing activities		<u>(120,367,680)</u>	<u>(120,290,659)</u>
Cash flows from financing activities			
Movement in provision		(676,400)	(3,315,359)
Finance lease receipts/(payments)		(2,592,843)	450,748
Net cash flows from financing activities		<u>(3,269,243)</u>	<u>(2,864,611)</u>
Net increase/(decrease) in cash and cash equivalents		<u>1,564,437</u>	<u>(3,534,691)</u>
Cash and cash equivalents at the beginning of the year		398,284	3,932,975
Cash and cash equivalents at the end of the year	3	<u>1,962,721</u>	<u>398,284</u>

* See Note 53

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	33,969,688	15,173,749	49,143,437	37,640,818	(11,502,619)	51.1
Rental income	2,340,427	(456,440)	1,883,987	843,265	(1,040,722)	51.2
Interest received - consumers	18,751,154	(4,318,099)	14,433,055	14,808,090	375,035	51.3
Licence and permits	-	-	-	7,625	7,625	51.4
Other income	1,175,861	5,312,189	6,488,050	8,073,026	1,584,976	51.5
Interest received - investment	1,842,750	643,669	2,486,419	1,970,757	(515,662)	51.6
Total revenue from exchange transactions	58,079,880	16,355,068	74,434,948	63,343,581	(11,091,367)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	47,676,629	32,258,255	79,934,884	80,134,532	199,648	51.7
Transfer revenue						
Government grants and subsidies	233,568,550	6,012,300	239,580,850	354,764,813	115,183,963	51.8
Donations	-	-	-	642,926	642,926	51.9
Fines	-	-	-	17,161,738	17,161,738	50.10
Total revenue from non-exchange transactions	281,245,179	38,270,555	319,515,734	452,704,009	133,188,275	
Total revenue	339,325,059	54,625,623	393,950,682	516,047,590	122,096,908	
Expenditure						
Employee related costs	(109,003,058)	(21,394,778)	(130,397,836)	(140,016,367)	(9,618,531)	51.11
Remuneration of councillors	(16,259,927)	378,771	(15,881,156)	(15,345,055)	536,101	51.12
Depreciation and amortisation	-	-	-	(46,842,633)	(46,842,633)	51.13
Finance costs	-	-	-	(5,580,269)	(5,580,269)	51.15
Allowance for debt impairment	(28,099,633)	(23,464,074)	(51,563,707)	(55,128,702)	(3,564,995)	51.16
Repairs and maintenance	(13,303,838)	(1,553,402)	(14,857,240)	(15,696,998)	(839,758)	51.17
Bulk purchases	(43,237,723)	(17,015,483)	(60,253,206)	(77,831,596)	(17,578,390)	51.18
Contracted services	(30,485,880)	(2,076,030)	(32,561,910)	(33,841,172)	(1,279,262)	51.19
General expenses	(121,400,509)	38,811,046	(82,589,463)	(53,698,145)	28,891,318	51.20
Total expenditure	(361,790,568)	(26,313,950)	(388,104,518)	(443,980,937)	(55,876,419)	
Operating surplus	(22,465,509)	28,311,673	5,846,164	72,066,653	66,220,489	
Fair value adjustments	-	-	-	16,481,692	16,481,692	
Surplus/ (deficit) for the year	(22,465,509)	28,311,673	5,846,164	88,548,345	82,702,181	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(22,465,509)	28,311,673	5,846,164	88,548,345	82,702,181	
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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	-	2,972,962	2,972,962	51.22
Other financial assets	-	-	-	3,567,722	3,567,722	51.23
Operating lease asset	-	-	-	614,739	614,739	50.24
Receivables from non-exchange transactions	-	-	-	128,451,247	128,451,247	51.25
VAT receivable	-	-	-	24,572,953	24,572,953	51.26
Receivables from exchange transactions	-	-	-	44,521,462	44,521,462	51.27
Cash and cash equivalents	-	-	-	1,962,721	1,962,721	51.28
	-	-	-	206,663,806	206,663,806	
Non-Current Assets						
Investment property	-	-	-	69,903,786	69,903,786	51.29
Property, plant and equipment	1,785,200	1,254,800	3,040,000	1,086,695,099	1,083,655,099	51.30
Intangible assets	40,000	-	40,000	-	(40,000)	
Other financial assets	-	-	-	330,712	330,712	51.23
	1,825,200	1,254,800	3,080,000	1,156,929,597	1,153,849,597	
Total Assets	1,825,200	1,254,800	3,080,000	1,363,593,403	1,360,513,403	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	1,398,030	1,398,030	51.31
Payables from exchange transactions	-	-	-	234,457,798	234,457,798	51.32
Unspent conditional grants and receipts	-	-	-	1,082,358	1,082,358	51.33
Provisions	-	-	-	12,580,866	12,580,866	51.34
	-	-	-	249,519,052	249,519,052	
Non-Current Liabilities						
Finance lease obligation	-	-	-	2,118,678	2,118,678	51.31
Employee benefit obligation	-	-	-	9,587,082	9,587,082	51.35
Provisions	-	-	-	28,003,641	28,003,641	51.34
Long service award	-	-	-	6,405,496	6,405,496	51.36
	-	-	-	46,114,897	46,114,897	
Total Liabilities	-	-	-	295,633,949	295,633,949	
Net Assets	1,825,200	1,254,800	3,080,000	1,067,959,454	1,064,879,454	

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*84,700,463 84,700,463
983,258,991 980,178,991 51.37
Mipumalanga Business Unit*

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Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Total Net Assets	1,825,200	1,254,800	3,080,000	1,067,959,454	1,064,879,454	

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Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts or recoverable service amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value-in-use of cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value-in-use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Value-in-use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

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Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 15.

Effective interest rate

The municipality uses the government bond rate to discount future cash flows except where stated otherwise.

Allowance for impairment

For receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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1.3 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value every 4 years, refer to note 9.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss from the derecognition of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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1.4 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	10 - 50 years
Infrastructure	Straight line	15 - 80 years
Community	Straight line	10 - 50 years
Landfill site	Straight line	0 - 100 years
Other property, plant and equipment	Straight line	2 - 35 years
- Vehicles		
- Furniture		
- Leased assets		

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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1.5 Site restoration and dismantling cost (continued)

The related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.6 Financial instruments

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and building elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets in the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received. By

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1.7 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Water is regarded as inventories when the municipality purchases water in bulk with the intention to resell it to consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in water dams under the control of the municipality, that are filled by natural resources and that has not yet been treated, can not be measured reliably as there is no cost attached to the water, and is therefore not recognised as inventories.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Value-in-use

Value-in-use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value-in-use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.10 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value-in-use; and
- the future cash outflows used to determine the value-in-use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value-in-use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.



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1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.11 Impairment of non-cash-generating assets

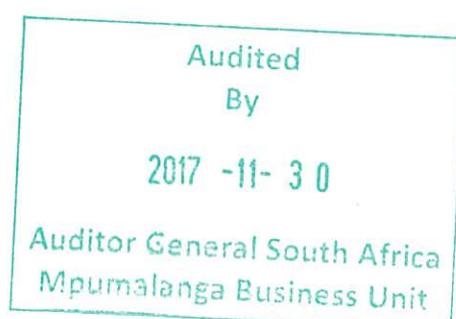
Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.



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1.11 Impairment of non-cash-generating assets (continued)

Value-in-use

Value-in-use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality will not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.12 Employee benefits

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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1.13 Provisions and contingencies (continued)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
 - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit;
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on municipalities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards; and
- fines or other penalties that are imposed for breaches of the legislation.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time.

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy, but does not yet have a present obligation to pay that levy.

1.14 Discontinued operations

Discontinued operation is a component of the municipality that has been disposed of and:

- represents a distinguishable activity, group of activities or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled entity acquired exclusively with a view to resale.

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1.14 Discontinued operations (continued)

A component of the municipality is the operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the municipality.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.16 Revenue from non-exchange transactions

Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

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1.16 Revenue from non-exchange transactions (continued)

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue, is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exists in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Service concession arrangements: Grantor

A service concession arrangement is a contractual arrangement between a grantor (the municipality) and an operator in which:

- the operator uses the service concession asset to provide a mandated function on behalf of the municipality for a specified period of time; and
- the operator is compensated for its services over the period of the service concession arrangement.

A service concession asset is an asset used to provide a mandated function in a service concession arrangement that:

- is provided by the operator which:
 - the operator constructs, develops, or acquires from a third party; or
 - is an existing asset of the operator.
- is provided by the grantor (municipality) which:
 - is an existing asset of the municipality; or
 - is an upgrade to an existing asset of the municipality.

An asset is provided by the operator, or an upgrade to an existing asset of the municipality is recognised as a service concession asset if:

- the municipality controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price;
- the municipality controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the arrangement.

The municipality measures initially a service concession asset at its fair value.

The municipality recognises a liability where a service concession asset is recognised.

The liability is initially recognised at the same amount as the service concession asset, adjusted by the amount for any consideration from the municipality to the operator, or from the operator to the municipality.

Where the municipality has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition or upgrade of a service concession asset, the liability is accounted for as a financial liability in accordance with GRAP 104.

The payments made to the operator are accounted for according to their substance as:

- a reduction in the liability recognised;
- a finance charge; and
- charges for services provided by the operator.

Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments are allocated by reference to the relative fair values of the service concession asset and the services. If not, the service component of payments is determined using valuation techniques.

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1.18 Service concession arrangements: Grantor (continued)

Where the municipality does not have an unconditional obligation to pay cash or another financial asset to the operator, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the liability is accounted for as the unearned portion of revenue arising from the exchange of assets between the municipality and the grantor.

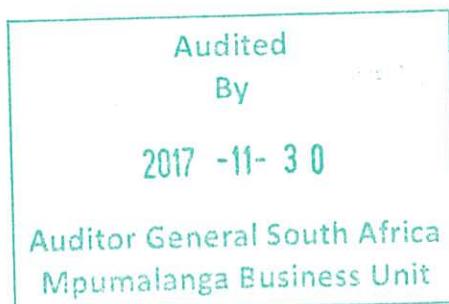
The liability is reduced and revenue recognised according to the substance of the service concession arrangement.

1.19 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.



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1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credit against accumulated surplus when retrospective adjustments are made.

1.23 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments, which are disclosed in note 43.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed if both the following criteria are met:

- contracts are non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.24 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving raise to the transfer occurred.

1.25 Budget information

The approved budget is prepared on the accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

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Accounting Policies

1.25 Budget information (continued)

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.26 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.27 Events after reporting date

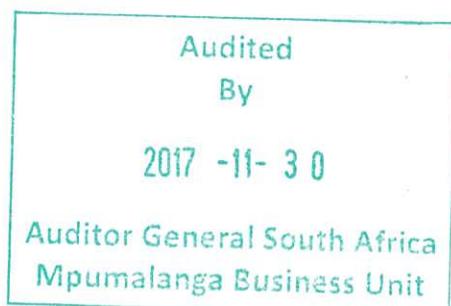
Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.



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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

2.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods but are not relevant to its operations:

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3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,617	1,117
Bank balances	378,383	284,287
Call account	1,582,721	112,880
	1,962,721	398,284

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
Standard Bank - Current Account - 033-255-954	378,383	284,287	386,756	378,383	284,287	386,756
Standard Bank - Investment Account - 038478668-002	241,073	30,667	486,497	241,073	30,667	486,497
Standard Bank - Investment Account - 308654552-001	1,341,647	82,203	3,058,605	1,341,647	82,203	3,058,605
Total	1,961,103	397,157	3,931,858	1,961,103	397,157	3,931,858

4. Receivables from exchange transactions

Gross balances

Water	9,375,822	12,624,584
Refuse	36,149,872	30,203,922
Sewerage	44,581,325	38,098,597
Electricity	10,054,718	9,073,645
Other	19,289,085	16,944,975
	119,450,822	106,945,723

Less: Allowance for impairment

Water	(4,361,478)	(1,797,866)
Refuse	(25,424,150)	(21,696,605)
Sewerage	(31,227,715)	(27,499,684)
Electricity	(2,430,895)	(6,069,234)
Other	(11,485,122)	(11,401,660)
	(74,929,360)	(68,465,049)

Net balance

Water	5,014,344	10,826,718
Refuse	10,725,722	8,507,317
Sewerage	13,353,610	10,598,913
Electricity	7,623,823	3,004,411
Other	7,803,963	5,543,315

44,521,462 **38,480,674**

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4. Receivables from exchange transactions (continued)		
Water		
Current (0 -30 days)	760,890	5,411,868
31 - 60 days	376,523	1,002,962
61 - 90 days	345,168	138,565
>90 days	7,893,241	6,071,189
Less: Allowance for impairment	(4,361,478)	(1,797,866)
	5,014,344	10,826,718
Refuse		
Current (0 -30 days)	856,250	634,718
31 - 60 days	776,713	512,273
61 - 90 days	701,229	447,501
>90 days	33,815,680	28,609,430
Less: Allowance for impairment	(25,424,150)	(21,696,605)
	10,725,722	8,507,317
Sewerage		
Current (0 -30 days)	913,890	679,750
31 - 60 days	816,580	523,234
61 - 90 days	724,173	511,598
>90 days	42,126,682	36,384,016
Less: Allowance for impairment	(31,227,715)	(27,499,685)
	13,353,610	10,598,913
Electricity		
Current (0 -30 days)	1,363,478	709,407
31 - 60 days	564,563	144,105
61 - 90 days	271,842	352,768
>90 days	7,854,835	7,867,365
Less: Allowance for impairment	(2,430,895)	(6,069,234)
	7,623,823	3,004,411
Other (specify)		
Current (0 -30 days)	809,427	381,054
31 - 60 days	423,967	328,588
61 - 90 days	366,475	321,387
>90 days	17,689,216	15,913,945
Less: Allowance for impairment	(11,485,122)	(11,401,659)
	7,803,963	5,543,315
Total		
Current (0 -30 days)	4,703,936	7,816,796
31 - 60 days	2,958,346	2,511,162
61 - 90 days	2,408,887	1,771,819
>90 days	109,379,654	94,845,946
Less: Allowance for impairment	(74,929,361)	(68,465,049)
	44,521,462	38,480,674

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4. Receivables from exchange transactions (continued)

Consumer debtors pledged as security

None of the consumer receivables were pledged as security.

None of the financial assets that are fully performing have been renegotiated in the prior year.

Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The municipality does not hold any collateral as security.

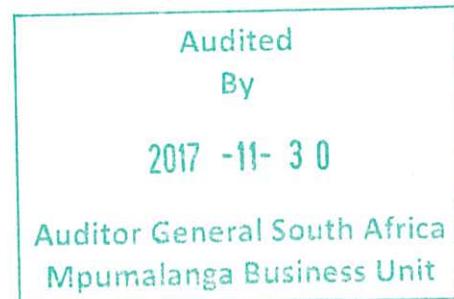
Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions in respect of government debtors are not considered to be impaired. At 30 June 2017, R49,084,919 (2016: R35,152,971) were past due but not impaired.

Receivables from exchange transactions impaired

As of 30 June 2017, receivables from exchange transactions of R119,436,977 (2016: R106,945,723) were impaired and provided for.

The amount of the allowance was R74,929,361 as of 30 June 2017 (2016: R68,465,049).



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5. Receivables from non-exchange transactions

Property rates	339,832,322	269,880,653
Traffic fines	23,878,341	6,716,603
Trade debtors	2,611,312	56,982
Staff debtors	309,717	309,717
Sundry debtor - Shatadi Auctioneers	-	731,927
Less: Allowance for impairment	(238,180,445)	(189,516,054)
	128,451,247	88,179,828
Gross balance		
Property rates	339,832,922	269,880,652
Traffic fines	23,878,341	6,716,603
Magoveni debtors	1,485,294	56,982
Staff debtors	309,717	309,717
Sundry debtors - Shatadi Auctioneers	845,376	731,927
	366,351,650	277,695,881
Less: Allowance for impairment		
Property rates	(215,916,404)	(182,966,896)
Traffic fines	(22,264,041)	(6,329,580)
	-	-
Sundry debtors - Shatadi Auctioneers	-	(219,578)
	(238,180,445)	(189,516,054)
Net balance		
Property rates	123,916,518	86,913,756
Traffic fines	1,614,300	387,023
Magoveni debtors	1,485,294	56,982
Staff debtors	309,717	309,717
Sundry debtors - Shatadi Auctioneers	845,376	512,349
	128,171,205	88,179,827
Property rates		
Current (0-30 days)	23,653,186	7,369,221
31 - 60 days	18,170,932	5,459,152
61 - 90 days	5,818,842	3,945,131
> 90 days	292,189,361	253,107,148
Less: Allowance for impairment	(215,916,404)	(182,966,896)
	123,915,917	86,913,756
Traffic fines		
Current (0-30 days)	1,908,465	1,703,200
31 - 60 days	1,397,855	2,162,784
61 - 90 days	2,115,204	244,687
> 90 days	18,456,816	2,605,932
Less: Allowance for impairment	(22,264,041)	(6,329,580)
	1,614,299	387,023
Trade debtors		
Current (0-30 days)	2,611,312	56,982

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5. Receivables from non-exchange transactions (continued)		
Staff debtors		
> 90 days	309,717	309,717
Sundry debtor - Shatadi Auctioneers		
31 - 60 days	-	731,927
Less: Allowance for impairment	-	(219,578)
	-	512,349
Total		
Current (0-30 days)	28,172,963	9,129,403
31 - 60 days	19,568,787	8,353,863
61 - 90 days	7,934,046	4,189,818
> 90 days	310,955,894	256,022,798
Less: Allowance for impairment	(238,180,445)	(189,516,054)
	128,451,245	88,179,828

Receivables from non-exchange transactions pledged as security

None of the receivables were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The municipality does not hold any collateral as security.

Receivables from non-exchange transactions impaired

As of 30 June 2017, receivables from non-exchange transactions of R 366,632,292 (2016: R277,695,882) were impaired and provided for.

The amount of the allowance was R238,180,445 as of 30 June 2016 (2016: R189,516,054).

Summary of receivables by customer classification for receivables from exchange and non-exchange transactions

Consumers	2017	2016
Current (0-30 days)	12,015,052	12,314,673
31 - 60 days	6,090,876	8,616,894
61 - 90 days	4,367,232	3,737,211
> 90 days	308,262,863	289,005,198
Less: Allowance for impairment	(245,497,270)	(233,483,075)
	85,238,753	80,190,901

Industrial / Commercial

Current (0-30 days)	7,511,646	2,558,142
31 - 60 days	6,240,992	845,553
61 - 90 days	2,601,080	782,277
> 90 days	44,740,163	28,892,757
Less: Allowance for impairment	(45,348,495)	(24,498,028)
	15,745,386	8,580,701

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5. Receivables from non-exchange transactions (continued)

National and provincial government

Current (0-30 days)	8,830,424	2,073,384
31 - 60 days	8,797,409	1,402,598
61 - 90 days	1,259,417	1,442,149
> 90 days	30,197,570	32,970,788
	49,084,820	37,888,919

Total

Current (0-30 days)	28,357,122	16,946,199
31 - 60 days	21,129,278	10,865,025
61 - 90 days	8,227,729	5,961,637
> 90 days	383,200,596	350,868,743
Less: Allowance for impairment	(313,109,805)	(257,981,103)
	127,804,920	126,660,501

Reconciliation of allowance for impairment

Balance at the begining of the year	(257,981,103)	(281,691,469)
Contributions to provision	(55,128,702)	23,710,366
	(313,109,805)	(257,981,103)

6. Inventories

Consumables	2,856,532	2,405,415
Water	116,430	103,630
	2,972,962	2,509,045

6.1 Reconciliation of inventory movement

Opening balance	2,509,045	2,243,824
Purchases	772,777	778,057
Utilised	(308,860)	(512,836)
Closing Balance	2,972,962	2,509,045

Inventory pledged as security

At year-end no inventory has been pledged as security.

7. Investments

Unlisted investments designated at amortised cost

RMB Momentum - Account number RU 500434741	237,615	220,547
End date: indefinite		
Sanlam: Guarantee Capital Fund - Policy number 9921774X7	93,097	87,071
End date: cover at death		
Stanlib Classic Investment Plan - Account number IP0006247	525,009	483,458
End date: indefinite		
Stanlib Extra Income Fund - Account number IP0006247	2,038,768	1,883,233
End date: indefinite		

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Listed investments at fair value

Listed shares

785,118

1,003,945

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7. Investments (continued)		
Total other financial assets	3,898,434	3,459,427
 Non-current assets		
At amortised cost	330,712	307,618
 Current assets		
At amortised cost	2,563,777	2,366,691
Listed investment at fair value	1,003,945	785,118
	3,567,722	3,151,809

Financial assets at fair value

Fair value information

Listed shares are carried at fair value.

The municipality owns 13,242 shares in Sanlam Limited which was trading at R64.80 (2016: R59.29) per share at each reporting period.

None of the financial assets that are fully performing have been renegotiated in the last year.

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Credit quality of investments

The credit quality of financial assets are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

8. Operating lease asset

Operating lease receipts asset 900.509 882.283

At the reporting date the municipality has outstanding commitments under operating leases which fall due as follows:

Operating lease as lessor

Operating lease as lessor		
Within one year	505,817	134,182
In the second to fifth year	394,692	748,101
	<hr/>	<hr/>
	900,509	882,283

Operating lease asset represent rentals receivable by municipality for premise/properties rented out. The lease was negotiated for periods ranging from 2 months to 119 months. The rentals escalate on average between 5% and 10% per annum.

9. Investment property

	2017			2016			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	
Investment property	69,903,786	-	69,903,786	Audited	54,082,100	-	54,082,100

Reconciliation of investment property - 2017

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9. Investment property (continued)

	Opening balance	Fair value adjustments	Total
Industrial and residential units	54,082,100	15,821,686	69,903,786

Reconciliation of investment property - 2016

	Opening balance	Other changes, movements	Fair value adjustments	Total
Investment property	19,142,500	2,134,509	32,805,091	54,082,100

Pledged as security

At year-end no investment property has been pledged as security.

Details of property

Investment properties mainly consists of industrial and residential units.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2016. The valuations were performed by an independent valuer, Valuers Afrika, who are not connected to the municipality. This valuation was based on the market value for existing use.

Interim valuations were performed during the current financial year.

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	981,901	2,028,231
---	---------	-----------

10. Property, plant and equipment

	2017		2016	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation
Land	115,691,700	-	115,691,700	115,691,700
Buildings	12,722,550	(7,009,502)	5,713,048	12,722,550
Community	63,252,441	(11,116,674)	52,135,767	39,167,739
Infrastructure	1,283,596,150	(591,931,466)	691,664,684	1,193,637,933
Infrastructure work in progress	173,195,459	-	173,195,459	168,558,536
Landfill site	41,017,143	(5,938,030)	35,079,113	41,747,830
Other property, plant and equipment	24,485,642	(11,270,314)	13,215,328	19,791,946
Total	1,713,961,085	(627,265,986)	1,086,695,099	1,591,318,234
				<i>Audited</i>

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	115,691,700	-	-	-	-	-	115,691,700
Buildings	6,047,957	-	-	-	(317,776)	(17,133)	5,713,048
Community	29,915,917	11,223,307	12,920,209	-	(1,359,635)	(564,031)	52,135,767
Infrastructure	642,773,160	25,042,378	64,618,009	-	(36,648,101)	(4,120,762)	691,664,684
Infrastructure work in progress	168,558,536	82,175,141	(77,538,218)	-	-	-	173,195,459
Landfill site	36,800,222	-	-	-	(1,721,109)	-	35,079,113
Other property, plant and equipment	8,827,279	1,220,303	-	5,264,893	(1,913,513)	(183,634)	13,215,328
	1,008,614,771	119,661,129		5,264,893	(41,960,134)	(4,885,560)	1,086,695,099

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Depreciation	Total
Land	55,038,000	-	-	-	60,653,700	-	-	115,691,700
Buildings	8,380,031	-	-	-	-	(1,076,060)	(1,256,014)	6,047,957
Community	32,707,797	-	-	-	-	(1,058,449)	(1,733,431)	29,915,917
Infrastructure	645,838,324	-	-	31,547,102	-	-	(34,612,266)	642,773,160
Infrastructure work in progress	110,033,284	120,216,403	-	(54,413,885)	-	(7,277,266)	-	168,558,536
Landfill site	15,262,221	-	-	22,866,783	-	-	(1,328,782)	36,800,222
Other property, plant and equipment	9,273,111	1,007,491	(1,149,767)	-	-	1,240,125	(1,543,681)	8,827,279
	876,532,768	121,223,894	(1,149,767)		60,653,700	(8,171,650)	(40,474,174)	1,008,614,771

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10. Property, plant and equipment (continued)

Pledged as security

None of the above property, plant and equipment have been pledged as security.

Revaluations

The effective date of the revaluations of land was 30 June 2016. Revaluations were performed by an independent valuer, Valuers Afrika. Valuers Afrika is not connected to the municipality.

These assumptions were based on current market conditions.

Change in estimate

In terms of the requirements of GRAP 17 the useful lives of all asset items were reviewed by management at year end. The remaining useful live expectations of some asset items differed from previous estimates. This resulted in a revision of some of the previous estimates which was accounted for as a change in accounting estimate. The effect of this revision is a decrease in the depreciation charges for the current period of 2017: (R66,867) (2016: R125,127).

Assets subject to finance lease (Net carrying amount)

IT equipment	1,791,467	1,488,880
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Details of property, plant and equipment

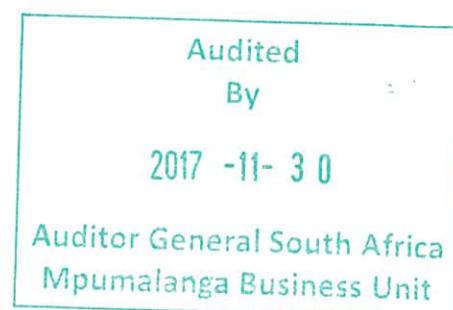
A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

11. Payables from exchange transactions

1% social responsibility	6,956,678	5,723,597
Payroll accruals	2,430,131	2,426,534
Consumer deposits	568,827	564,700
Retentions	26,141,923	24,210,353
Other payables	699,143	6,243,863
Trade payables	177,685,865	150,774,945
Income received in advance	18,354,574	10,634,542
Unallocated deposits	1,620,660	1,620,660
	234,457,801	202,199,194

Consumer deposits:

Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on consumer deposits held.



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12. Finance lease obligation

Minimum lease payments due

- within one year	1,662,064	545,899
- in second to fifth year inclusive	2,306,089	463,143

less: future finance charges

3,968,153	1,009,042
(465,658)	(85,177)

Present value of minimum lease payments

3,502,495	923,865
------------------	----------------

Present value of minimum lease payments due

- within one year	1,398,030	493,012
- in second to fifth year inclusive	2,104,465	430,853

3,502,495	923,865
------------------	----------------

Non-current liabilities

2,118,678	430,853
-----------	---------

Current liabilities

1,398,030	493,012
-----------	---------

3,516,708	923,865
------------------	----------------

The average lease term is 3 years and the average effective borrowing rate is 9%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and others escalate. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

Refer to note 10 for the carrying value of assets held under a finance lease.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Human settlement	357,432	-
Department of Local Government and Traditional Affairs	228,831	228,831
Department of Water and Forestry Affairs	-	2,071,798
Department of Arts and Culture	199,666	199,666
LG SETA Grants	296,429	163,993

1,082,358	2,664,288
------------------	------------------

Movement during the year

Balance at the beginning of the year	2,664,288	4,948,392
Additions during the year	119,583,972	129,871,074
Income recognition during the year	(119,094,104)	(131,581,959)
Unspent conditional grant surrendered to National Treasury	(2,071,798)	(573,219)

1,082,358	2,664,288
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Current liabilities

1,082,358	2,664,288
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366,219

(366,219)

1,600,000

(1,600,000)

Financial Management Grant

Balance unspent at the beginning of the year
Unspent conditional grant surrendered to National Treasury
Current year receipts
Conditions met - transferred to revenue

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13. Unspent conditional grants and receipts (continued)

The grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Expanded Public Work Programme

Balance unspent at the beginning of the year

3,304,000

2,059,000

Current year receipts

(3,304,000)

(2,059,000)

Conditions met - transferred to revenue

-

-

The grant is intended to fund bulk, connector and internal infrastructure of water services at a basic level of service.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Department of Local Government and Traditional Affairs

Balance unspent at the beginning of the year

228,832

228,832

The grant is intended for the construction of the ring in Silobela which is funded by the department of Local government and Traditional Affairs.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Department of Water and Forestry Affairs

Balance unspent at the beginning of the year

2,071,798

-

Current year receipts

20,500,000

25,000,000

Conditions met - transferred to revenue

(20,500,000)

(22,928,202)

Unspent conditional grant surrendered to National Treasury

(2,071,798)

-

-

2,071,798

The grant is intended to fund bulk, connector and internal infrastructure of water services at a basic level of service.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Department of Arts and Culture

Balance unspent at the beginning of the year

199,666

199,666

The grant is intended to improve the social economic situation.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Department of Energy

Balance unspent at the beginning of the year

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Current year receipts

958,000

-

Conditions met - transferred to revenue

(958,000)

6,000,000

-

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13. Unspent conditional grants and receipts (continued)

The grant is intended to fund energy efficient lighting technologies in municipal building, street and traffic lighting infrastructure.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Municipal Infrastructure Grant

Balance unspent at the beginning of the year	-	4,140,171
Unspent conditional grant surrendered to National Treasury	-	(207,000)
Current year receipts as per DORA	90,197,000	94,091,000
Conditions met - transferred to revenue	(90,197,000)	(98,024,171)
	-	-

The grant is intended to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Gert Sibande District Municipality

Balance unspent at the beginning of the year	-	-
Current year receipts	2,124,000	-
Conditions met - transferred to revenue	(2,124,000)	-
	-	-

The grant is intended to fund the project of the Emanzana bridge.

Human settlement

Balance unspent at the beginning of the year	-	-
Current year receipts	2,817,500	-
Conditions met - transferred to revenue	(2,460,465)	-
	357,035	-

The grant was intended for highmast installation.

Municipal Systems Improvement Grant

Balance unspent at the beginning of the year	-	-
Current year receipts	-	930,000
Conditions met - transferred to revenue	-	(930,000)
	-	-

The grant is intended to assist the municipality in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and local government turnaround strategy.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

LG SETA Grant

Balance unspent at the beginning of the year	163,993	13,505
Current year receipts	182,471	191,075
Conditions met - transferred to revenue	(50,036)	(40,587)

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296,428

163,993

191,075

(40,587)

163,993

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13. Unspent conditional grants and receipts (continued)

The grant is intended for sending the staff of municipality for training by the corporate service.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

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14. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Reversed during the year	Total
Provision for rehabilitation	25,079,221	5,495,646	-	30,574,867
Provision	171,219	-	-	171,219
Leave	10,173,909	-	(335,488)	9,838,421
	35,424,349	5,495,646	(335,488)	40,584,507

Reconciliation of provisions - 2016

	Opening Balance	Additions	Reversed during the year	Total
Provision for rehabilitation	28,394,580	-	(3,315,359)	25,079,221
Legal proceedings	171,219	-	-	171,219
Leave	9,299,531	874,378	-	10,173,909
	37,865,330	874,378	(3,315,359)	35,424,349
Non-current liabilities			28,003,641	22,542,992
Current liabilities			12,580,866	12,881,357
			40,584,507	35,424,349

Provision for rehabilitation

The municipality engages in waste disposal operations from residential and business areas within the following area:

- eManzanal
- Carolina
- Ekulindeni
- Elukwathini
- Empuluzi

It is required from the municipality to execute an environmental management programme to restore the landfill sites after its useful life. As such an assessment is required in order to calculate the landfill closure provision liability.

This assessment was performed using the General Landfill Closure Costing Model (GLCCM) that was developed by Mr Seakle Godschalk Pr Sci Nat, GIMFO and Dr Maryna Möhr-Swart, both partners in Environmental & Sustainability Solutions (ESS).

ESS has developed the GLCCM to estimate the final rehabilitation and closure costs for general landfills. The GLCCM is being updated in cooperation with Jones and Wagener Consulting Civil Engineers (Pty) Ltd, a company that is actively involved in rehabilitation and closure of landfill sites. The GLCCM standardises the determination of landfill closure costs between different landfills and for the same landfill over time. The GLCCM is based on the Minimum Requirements for Waste Disposal by Landfill of the Department of Water Affairs (1998), as amended by more recent regulations. The GLCCM provides a reliable best possible estimate of closure costs in terms of paragraph .49 of GRAP 19 or paragraph 36 of IAS 37.

The liability calculated using the GLCCM includes costs associated with:

- Pre-closure planning and approvals (four cost elements)
- Final rehabilitation and closure (seven cost elements)
- 30 years post-closure monitoring (seven costs elements)

Between 2011 and 2016, the GLCCM has been used to conduct 182 closure cost determination for 71 landfills controlled by 29 municipalities/entities spread over six provinces.

The landfill closure provision is calculated as the net present value of future cash flows.

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14. Provisions (continued)

Financial assumptions used

Unit costs

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation.

Consumer price index (CPI)

The CPI is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last quarter amounted to 5.6372%.

Discount rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The rate most consistent with the remaining life of the landfills published at the end of the quarter that includes the financial year-end date was used.

- For landfills with an expected remaining life of three years or less, the rate associated with a maximum period of 3 years is used.
- For landfills with an expected remaining life of four or five years, the rate associated with a maximum period of 5 years is used.
- For landfills with an expected remaining life of more than five years, the rate associated with a maximum period of 10 years is used.

Key financial assumptions used

	For Carolina (old) landfill	For Elukwathini, eManzana, Ekulindeni and Empuluzi landfills
CPI	5.6372 %	5.6392 %
Discount rate	8.6372 %	8.1372 %
Net effective discount rate	3.0000 %	2.5000 %

Discounting of closure costs

The discounted value of the liability for the closure of the landfills is shown in the Table below:

Description	2016-2017 R	2015-2016 R
Landfill closure provision	28,515,391	25,079,221
Interest charge	2,059,476	-
	<u>30,574,867</u>	<u>25,079,221</u>

The landfill closure provision is calculated as the net present value of future cashflows.

The interest charge is calculated as the sum of the interest charges for all future cashflows calculated in the previous year and using the previous year's discount rate.

Current and non-current liability

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14. Provisions (continued)

The individual reports for the respective landfills must be consulted for an explanation of any disclosure of a current liability for landfill closure.

Description	Period ending 30 June 2017	Period ending 30 June 2016
Current liability	2,742,445	2,536,229
Non-current liabilities	27,832,421	22,542,992
	30,574,866	25,079,221

The results of this assessment should be disclosed as follows in the financial statements.

Disclosures in the Statement of Financial Performance or the notes thereto.

Line item	2016-2017 R	2015-2016 R
Change in landfill closure provision	3,436,170	2,059,476
Interest charge	2,059,476	-
	5,495,646	2,059,476

Disclosures in the Statement of Financial Position or the notes thereto.

Net Liability in Balance Sheet	Year ending 30 June 2017	Year ending 30 June 2016
Opening Balance	25,079,221	22,508,555
Change in landfill closure provision	3,436,170	2,570,666
Interest charge	2,059,476	-
	30,574,867	25,079,221

Provision for legal proceedings

Legal proceedings are disclosed in the contingent liability note 44.

15. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

Medical scheme arrangements

The municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Contribution rate structure

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy arrangements

There were no in-service members who are eligible for the post-retirement benefit.

Pensioners that are currently receiving post-employment retirement benefits do not match the SALGA policy in terms of the subsidy percentage. Therefore, it was decided that the current pensioners will be valued based on the actual subsidy that they are currently receiving, which is either a 70% or 100% subsidy of their total monthly medical aid contribution (this is based on the data provided). In addition, the subsidy payable is not limited to a monthly maximum amount per person for pensioners.

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15. Employee benefit obligations (continued)

For the reason listed above, the increase in subsidy cap is not applicable.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	<u>(9,587,082)</u>	<u>(10,338,000)</u>
---	--------------------	---------------------

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	10,338,000	10,865,000
Interest costs	990,000	960,000
Benefits paid	(786,350)	(740,193)
Actuarial (gains) losses	(954,568)	(746,807)
	<u>9,587,082</u>	<u>10,338,000</u>

Net expense of the defined benefit obligation recognised in the statement of financial performance

Interest cost	990,000	960,000
Actuarial (gains) losses	(954,568)	(746,807)
	<u>35,432</u>	<u>213,193</u>

Key assumptions used

Assumptions used at the reporting date (2017 and 2016):

Discount rate:	Yield curve
CPI (Consumer price inflation):	Difference between nominal and yield curves
Medical aid contribution inflation:	CPI+1%
Net effective discount rate:	Yield curve based

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

We used the nominal and real zero curves as at 30 June 2017 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period.

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Mortality rates

Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement.

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15. Employee benefit obligations (continued)

Other assumptions

The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on the following would be:

The increase of 1% p.a. change in the medical aid inflation assumption is as follows:	One percentage point increase	Current valuation percentage	One percentage point decrease
Total Accrued Liability	10,593,726	9,587,082	8,741,501
Interest cost	1,087,000	990,000	904,000
	11,680,726	10,577,082	9,645,501

The liability amounts for the current annual reporting period and previous three annual reporting periods are as follows:

	2017	2016	2015	2014
Present value of obligation	9,587,082	10,338,000	10,865,000	11,243,000

16. Long service award accrual

As per government gazette an employee shall qualify for long service rewards in terms of leave days credits for the various periods of continuous service completed at the same employer as follows:

- After 10 years of service - 10 working days
- After 15 years of service - 20 working days
- After 20 years of service - 30 working days
- After 25 years of service - 30 working days
- After 30 years of service - 30 working days
- After 35 years of service - 30 working days
- After 40 years of service - 30 working days
- After 45 years of service - 30 working days

The leave mentioned may be wholly or partially converted on the date on which an employee qualified or at any stage thereafter.

Long service benefits are awarded in the form of a number of leave days awarded once the employee completes a certain number of years in service.

Valuation of assets

The long service leave award liability of the municipality is unfunded. No dedicated assets had been set aside to meet this liability.

Valuation of assets

Carrying value

Present value

6,405,407

7,423,000

Changes in present value

Opening balance

7,423,000

Audited

Current service cost

790,000

By

Interest cost

755,000

669,000

Benefits paid

(667,326)

576,000

Actuarial loss/(gain)

(1,895,178)

(420,711)

6,405,496

506,711

7,423,000

Net expense recognised in the statement of financial performance

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16. Long service award accrual (continued)		
Current service cost	790,000	669,000
Interest cost	755,000	576,000
Actuarial loss/(gain)	(1,776,154)	506,711
	(231,154)	1,751,711

Key assumptions (2016 and 2015)

Discount rate:	8.5%
CPI (Consumer price inflation):	Difference between nominal and real yield curve
Normal salary increase rate:	Equal to CPI (6.32%) + 1%
Net effective discount rate:	2.05%

Average Retirement Age:

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

The effect of 1% p.a. change in the normal salary inflation assumption is as follow:	One percentage point increase	Current valuation percentage	One percentage point decrease
Total accrued liability	6,844,263	6,405,487	6,020,517
Current service cost	869,000	790,000	721,000
Interest cost	817,000	755,000	699,000
	8,530,263	7,950,487	7,440,517

The cost of the long service awards is dependant on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the long service awards liability.

The interest cost is based on the discount rate assumption for the current valuation which is based on one point on the curve.

The amounts for the current annual reporting period and previous reporting period:

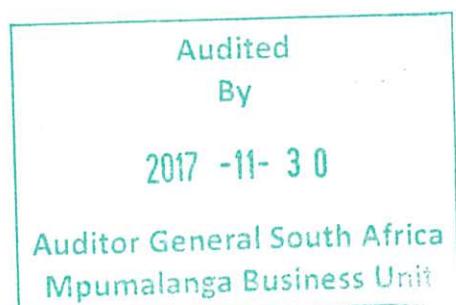
Present value of obligation	6,405,487	7,423,000
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17. Revaluation reserve

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2016. Revaluations were performed by an independent valuer, Value Africa. Value Africa are not connected to the municipality.

The assumptions were based on current market conditions.

Opening balance	84,700,463	24,046,763
Change during the year	-	60,653,700
	84,700,463	84,700,463



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18. Revenue

Government grants and subsidies	354,764,813	350,719,178
Service charges	37,640,818	35,144,258
Property rates	80,134,532	54,577,809
Interest received - consumers	14,808,090	24,484,144
Donations	642,926	3,729,658
Licences and permits	7,625	1,944,052
Fines	17,161,738	5,213,955
Interest received - investment	1,970,757	2,244,682
Other income	8,073,026	1,347,017
Rental income	843,265	2,642,970
Gain on disposal of assets	-	(79,218)
Other transfer revenue	-	3,315,359
	516,047,590	485,283,864

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	37,640,818	35,144,258
Interest received - consumers	14,808,090	24,484,144
Licences and permits	7,625	1,944,052
Interest received - investment	1,970,757	2,244,682
Other income	8,073,026	1,347,017
Rental income	843,265	2,642,970
Gain on disposal of assets	-	(79,218)
	63,343,581	67,727,905

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	80,134,532	54,577,809
Transfer revenue		
Government grants and subsidies	354,764,813	350,719,178
Donations	642,926	3,729,658
Fines	17,161,738	5,213,955
Other transfer revenue	-	3,315,359
	452,704,009	417,555,959

19. Service charges

Sale of electricity	18,657,368	17,700,069
Sewerage and sanitation charges	7,525,056	6,433,651
Sale of water	4,468,794	4,993,911
Refuse removal	7,467,313	6,016,627
Other service charges	(477,713)	-
	37,640,818	35,144,258

20. Rental income

Facilities and equipment
Rental of facilities

Audited

2,642,970

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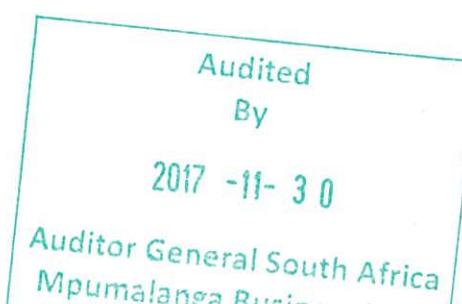
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21. Interest received - consumers		
Interest - consumers	14,808,090	24,484,144
22. Interest received - investments		
Interest revenue		
Unlisted investments at amortised cost	1,970,757	2,244,682
23. Licences and permits		
Licences	7,625	1,036,058
Licencing Function was transferred to the Department of Community Safety, Security & Liaison effective from the 01 April 2016.		
24. Other income		
Billboard	226	-
Building plan fees	171,332	155,271
Burial fees	95,944	82,548
Certificate clearance	7,067	6,207
Photocopies	8,190	-
Connection services	190,285	117,489
Fire brigade fees	55,112	55,549
Insurance claims	81,113	197,410
Proof of residence	116,377	-
Sale of stands	504,921	160,692
Sundry fees	6,229,193	118,310
Tempering of meters	139,165	73,947
Refunds	11,224	-
Tender deposits	258,108	309,407
Posters	58,905	-
Unclaimed dividends	145,863	-
	8,073,026	1,276,830
25. Property rates		
Rates received		
Residential	51,819,518	19,840,781
Commercial	26,982,535	34,186,739
Government	1,332,479	550,289
	80,134,532	54,577,809
Valuations		
Residential	1,603,075,460	764,859,000
Commercial	612,925,900	23,480,500
State	2,009,152,600	32,053,400
Municipal	403,780,400	8,251,370
Agriculture	3,463,959,000	1,924,765,070
Other	1,587,634,920	39,938,630
	9,680,528,280	2,793,347,970

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2016. The valuations were performed by an independent valuer, Valuers Afrika, who are not connected to the municipality.



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25. Property rates (continued)

Interim valuations performed in the current year.

The new general valuation was be implemented on 01 July 2016.

26. Government grants and subsidies

Please also refer note 13.

Equitable Share	233,445,798	219,137,219
Municipal Systems Improvements Grant	-	930,000
	<u>233,445,798</u>	<u>220,067,219</u>
Capital grants		
Municipal Infrastructure Grant	90,197,000	98,024,171
Department of Water and Forestry Affairs	20,500,000	22,928,202
Department of Energy	958,000	6,000,000
Expanded Public Works Programme	3,304,000	2,059,000
Finance Management Grant	1,625,000	1,600,000
Gert Sibande District Municipality	2,211,399	-
Department of Human Settlements	2,460,068	-
LG SETA	63,548	40,586
	<u>121,319,015</u>	<u>130,651,959</u>
	<u>354,764,813</u>	<u>350,719,178</u>

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. Please refer to note 13.

27. Donations

Donations	642,926	3,729,658
	<u>642,926</u>	<u>3,729,658</u>

Gert Sibande District Municipality donated infrastructure assets amounting to R 642 926 (2016: R3,729,658) during the financial year.

28. Fines

Traffic fines	17,161,738	5,213,955
	<u>17,161,738</u>	<u>5,213,955</u>

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29. Employee related costs

Acting allowances	1,294,999	1,055,291
Actuarial (gain)/loss	(954,568)	(240,096)
Bargaining council	41,019	39,281
Basic	87,410,330	84,589,748
Bonus	6,497,779	6,224,788
Housing benefits and allowances	1,617,548	1,642,900
Interest cost on actuarial valuations	639,822	2,205,000
Leave pay accrual	(334,234)	874,377
Medical aid	6,984,235	5,774,695
Overtime payments	3,229,950	2,981,653
Pension fund	16,377,898	15,471,692
Provident fund	541,560	407,579
Restday allowance	839,345	558,162
SDL	1,182,636	1,065,758
Standby allowances	4,197,763	3,759,606
Telephone allowances	58,800	4,800
Travel allowances	9,656,283	8,948,417
UIF	735,202	701,762
	140,016,367	136,065,413

Remuneration of Municipal Manager: Mpila VN

Annual remuneration	240,992	903,292
Travel allowance	21,000	84,000
Contribution to UIF, medical and pension funds	74,013	254,920
Termination leave payout	236,352	-
	572,357	1,242,212

Remuneration of Chief Finance Officer: Nhlabathi MJ

Annual remuneration	715,136	738,812
Travel allowance	132,000	144,000
Contribution to UIF, medical and pension funds	79,579	67,892
Acting allowance	7,413	-
Termination leave payout	131,469	-
	1,065,597	950,704

Remuneration of Director: Technical Services: Modimogale MD

Annual remuneration	775,759	800,045
Travel allowance	77,000	84,000
Contribution to UIF, medical and pension funds	63,743	65,407
Termination leave payout	73,458	-
	989,960	949,452

Remuneration of Director: Corporate Services: Mndebele SF

Annual remuneration	745,754	699,923
Travel allowance	78,000	78,000
Contribution to UIF, medical and pension funds	173,797	163,285
Performance bonus	-	41,897
Rural allowance	-	-
Acting allowance	-	-
	1,039,982	983,105

Remuneration of Municipal Manager: Dlamini MS

Annual remuneration	125,658	-
Travel allowance	37,000	-

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 983,105 -
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29. Employee related costs (continued)		
Acting allowance	53,970	-
Cellphone Allowance	4,000	-
Rural Allowance	8,047	-
Contributions to UIF, medical and pension funds	32,537	-
	261,212	-
Remuneration of Director: Corporate Services: Shabangu JW		
Annual remuneration	533,803	67,710
Travel allowance	130,655	18,154
Long Service award	18,432	-
Acting allowance	141,488	50,418
Rural allowance	8,781	-
Pro-rata bonus	28,799	-
Contributions to UIF, medical and pension funds	129,606	21,909
Termination leave payout	88,473	-
	1,080,037	158,191
Remuneration of Director: Public Safety: Makgopa KB		
Annual remuneration	490,033	690,085
Travel allowance	35,152	52,728
Contributions to UIF, medical and pension funds	151,059	205,792
Termination leave payout	191,228	-
	867,472	948,605
Remuneration of Director: Community Services: Mkhwanazi ZF		
Annual remuneration	141,689	760,279
Travel allowance	22,273	117,600
Acting allowance	2,797	-
Contributions to UIF, medical and pension funds	16,584	71,682
Termination leave payout	120,269	-
	303,612	949,561
Remuneration of Director: Planning and Economic Development: Lukhele TA		
Annual remuneration	841,139	803,303
Travel allowance	60,000	60,000
Rural allowance	6,585	-
Contributions to UIF, medical and pension funds	114,553	86,320
Termination leave payout	191,228	-
	1,213,505	949,623
30. Remuneration of councillors		
Executive Mayor	760,239	785,164
Speaker	625,632	632,365
Chief Whip	554,230	594,098
Mayoral committee members	2,178,655	1,782,465
Councillors	11,226,299	11,234,552
	15,345,055	15,028,644
In-kind benefits		

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The Executive Mayor is provided with a vehicle, driver, secretary, manager and personal assistant at the cost of the council.

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30. Remuneration of councillors (continued)

The Chief Whip is provided with a secretary and personal assistant.

The Speaker is provided with secretarial support, a manager and personal assistant.

All the full time Mayoral committee members are provided with one secretary.

Members of municipal council should be remunerated within the upper limits as determined by the Department of Cooperative Governance and Traditional Affairs. Any deviations are disclosed as irregular expenditure.

Remuneration of Councillors:

The remuneration of the political office bearers and councillors are within the upper limits as determined by the framework envisaged section 219 of the Constitution.

2017 Executive Mayor	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Nkosi D.P	492,152	167,602	20,868	73,823	5,794	760,239
Speaker	Basic	Travel allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Mngomezulu M.W	346,125	150,188	20,868	103,539	4,912	625,632
Chief Whip	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Sidu L.L	333,738	132,272	20,868	63,077	4,276	554,231
Mayoral Committee	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Nkosi S.Z	315,973	131,456	20,868	78,395	4,296	550,988
Makhubela N.V	332,872	130,732	20,868	63,169	4,231	551,872
Magagula P	310,651	124,523	18,600	62,918	4,025	520,717
Mnisi-Nkosi N	345,628	132,491	20,868	51,844	4,250	555,081
	1,305,124	519,202	81,204	256,326	16,802	2,178,658
2017 Councillors	Annual remuneration	Travel allowance	Cellphone allowance	Pension and Medical Aid	SDL	Total
Cindi NR	149,009	57,120	20,868	22,351	1,951	251,299
Ginindza SV	280,667	116,627	18,600	69,212	3,811	488,917
Shiba BP	58,277	15,792	2,268	8,323	703	85,363
Nkosi SM	46,046	12,634	2,268	7,235	568	68,751
Thabathe QT	43,572	11,844	2,268	6,378	533	64,595
Mnisi N	44,006	11,844	2,268	5,944	532	64,594
Dludlu Z.M	149,009	57,120	20,868	22,351	1,951	251,299
Hlatshwayo M.G	18,212	4,760	2,268	1,863	226	27,329
Lubede E.J	149,009	57,120	20,868	22,351	1,950	251,298
Maduna M.E	15,311	4,760	2,268	4,763	234	27,336
Makene J	23,372	6,109	2,268	2,390	283	34,422
Malaza STQ	18,212	4,760	2,268	1,863	226	27,329
Mayaba LM	18,212	4,760	2,268	1,863	226	27,329

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30. Remuneration of councillors (continued)

Masuku B.M	18,212	4,760	2,268	1,863	226	27,329
Mbhele JS	149,009	57,120	20,868	22,351	1,951	251,299
Mdhluli NI	16,468	4,760	2,268	3,606	231	27,333
Mhlanga PP	18,212	4,760	2,268	1,863	226	27,329
Mkhabele EB	18,212	4,760	2,268	1,863	226	27,329
Motaung RM	149,009	57,120	20,868	22,351	1,951	251,299
Motha TW	18,212	4,760	2,268	1,863	226	27,329
Mthombeni SF	171,910	71,135	20,868	41,494	2,418	307,825
Neethling ML	20,075	4,760	2,268	-	261	27,364
Ngubeni A	149,009	57,120	20,868	22,351	1,951	251,299
Nkabinde NJ	16,263	4,760	2,268	3,812	231	27,334
Nkosi AD	149,009	57,120	20,868	22,351	1,951	251,299
Nkosi FE	18,212	4,760	2,268	1,863	226	27,329
Nkosi GJ	132,665	57,120	20,868	38,696	1,998	251,347
Nkosi JS	185,569	71,135	20,868	27,835	2,378	307,785
Nkosi MH	18,212	4,760	2,268	1,863	226	27,329
Nkosi MJ	18,212	4,760	2,268	1,863	226	27,329
Nkosi NM	18,212	4,760	2,268	1,863	226	27,329
Nkosi SJ	23,372	6,109	2,268	2,390	283	34,422
Nkosi VL	123,462	57,120	20,868	47,899	2,024	251,373
Ntuli FJ	18,212	4,760	2,268	1,863	226	27,329
Phakathi FDM	18,212	4,760	2,268	1,863	226	27,329
Shabangu LD	189,500	71,135	20,868	-	2,673	284,176
Sikhakhane NB	149,009	57,120	20,868	22,351	1,951	251,299
Simelani JD	149,009	57,120	20,868	22,351	1,951	251,299
Soko JP	14,707	4,760	2,268	5,368	236	27,339
Steenkamp ML	18,212	4,760	2,268	1,863	226	27,329
Thomo NG	169,085	71,135	20,868	44,319	2,426	307,833
Vilakazi RG	23,372	6,109	2,268	2,390	283	34,422
Zulu TW	18,212	4,760	2,268	1,863	226	27,329
Zwane TE	18,212	4,760	2,268	1,863	226	27,329
Thabede M.J	137,492	47,600	18,600	20,354	1,737	225,783
Mthembu M.S	135,692	47,600	18,600	20,354	1,737	223,983
Malaza M.A	135,692	47,600	18,600	20,352	1,737	223,981
Nkosi B.G	129,782	47,600	18,600	26,264	1,754	224,000
Ngwenya R.D	172,710	61,087	18,600	25,910	2,164	280,471
Nkosi T.S	115,337	50,912	18,600	37,398	1,789	224,036
Madonsela Z.J	95,560	36,631	13,383	14,334	1,251	161,159
Nkosi TB	135,692	47,600	18,600	20,354	1,737	223,983
Shongwe JD	135,692	47,600	18,600	20,354	1,737	223,983
Jele J.J	135,692	47,600	18,600	20,354	1,737	223,983
Nkosi T.J	135,692	47,600	18,600	20,354	1,737	223,983
Nhlabathi N.C	135,692	47,600	18,600	20,354	1,737	223,983
Khumalo MJ	132,813	50,912	18,600	19,922	1,739	223,986
Mkhwanazi H.L.Z	121,707	50,912	18,600	31,028	1,771	224,018
Zulu G.G	135,692	47,600	18,600	20,354	1,737	223,983
Ngoma Z.S.G	135,692	47,600	18,600	20,354	1,737	223,983
Van Der Walt L	110,814	47,600	18,600	45,232	1,809	224,055
Ntjana M.L	135,692	47,600	18,600	20,354	1,737	223,983
Matshaba K.A	124,222	47,600	18,600	31,824	1,770	224,016
Hlabathi P.Z	135,692	47,600	18,600	20,354	1,737	223,983
Zwane F.C	117,469	47,600	48,600	38,576	1,790	254,035
Ndebele JCH	117,469	47,600	18,600	38,576	1,790	224,035
Nkosi S.P	135,692	47,600	18,600	20,354	1,737	223,983
Zulu W	129,267	50,912	18,600	23,468	1,749	223,996
Mazibuko K.M	120,395	46,152	16,861	18,059	1,576	203,043
Mbuli T.G	24,835	9,520	3,478	3,725	325	41,883
Mnisi S.T	99,340	38,080	13,912	14,901	1,301	167,534
Khoza D.P	12,437	4,760	1,739	1,866	163	20,965

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30. Remuneration of councillors (continued)	6,620,125	2,456,566	902,297	1,188,704	88,602	11,256,294
2016						
Executive Mayor	Basic	Travel allowance	Cellphone allowance	Pension and Medical Aid	SDL	Total
Shiba BP	471,941	189,503	20,868	96,568	6,284	785,164
Speaker	Basic	Travel allowance	Cellphone allowance	Pension and Medical Aid	SDL	Total
Nkosi SM	370,322	151,603	20,868	84,486	5,086	632,365
Chief Whip	Basic	Travel allowance	Cellphone allowance	Pension and Medical Aid	SDL	Total
Nkosi DP	372,217	142,128	20,868	54,165	4,720	594,098
Mayoral Committee	Basic	Travel allowance	Cellphone allowance	Pension and Medical aid	SDL	Total
Mngomezulu MW	338,325	142,128	20,868	88,058	4,804	594,183
Mnisi NM	356,913	142,128	20,868	69,470	4,758	594,137
Thabethe QG	351,838	142,128	20,868	74,545	4,770	594,149
	1,047,076	426,384	62,604	232,073	14,332	1,782,469

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30. Remuneration of councillors (continued)

2016 Councillors	Basic	Travel allowance	Cellphone allowance	Pension and medical aid	SDL	Total
Cindi NR	149,642	57,120	20,868	21,719	2,022	251,371
Dludlu ZM	149,642	57,120	20,868	21,719	2,022	251,371
Hlatshwayo MG	149,642	57,120	20,868	21,719	2,022	251,371
Lubede EJ	149,642	57,120	20,868	21,719	2,022	251,371
Maduna ME	116,630	57,120	20,868	54,731	2,104	251,453
Makene J	192,040	73,304	20,868	27,873	2,536	316,621
Makhubelo NV	149,642	57,120	20,868	21,719	2,022	251,371
Malaza STQ	149,642	57,120	20,868	21,719	2,022	251,371
Masuku BM	149,642	57,120	20,868	21,719	2,022	251,371
Masuku LL	149,642	57,120	20,868	21,719	2,104	251,453
Mayaba LM	88,785	33,320	12,173	11,176	1,203	146,657
Mbhele JS	149,642	57,120	20,868	21,719	2,022	251,371
Mdhluli NI	129,263	57,120	20,868	42,098	2,073	251,422
Mhlanga PP	149,642	57,120	20,868	21,719	2,022	251,371
Mkhabela EB	149,642	57,120	20,868	21,719	2,022	251,371
Mnisi N	192,040	73,304	20,868	27,873	2,536	316,621
Motaung RM	149,642	57,120	20,868	21,719	2,104	251,453
Motha TW	149,642	57,120	20,868	21,719	2,022	251,371
Mthombeni SF	136,851	57,120	20,868	34,510	2,054	251,403
Neethling NE	171,361	57,120	20,868	-	2,379	251,728
Ngubeni A	149,642	57,120	20,868	21,719	2,022	251,371
Nkabinde NJ	127,398	57,120	20,868	43,962	2,077	251,425
Nkosi AD	149,642	57,120	20,868	21,719	2,022	251,371
Nkosi FE	149,642	57,120	20,868	21,719	2,022	251,371
Nkosi GJ	135,579	57,120	20,868	35,782	2,057	251,406
Nkosi JS	149,642	57,120	20,868	21,719	2,022	251,371
Nkosi MH	149,642	57,120	20,868	21,719	2,022	251,371
Nkosi MJ	149,642	57,120	20,868	21,719	2,022	251,371
Nkosi MN	149,642	57,120	20,868	21,719	2,022	251,371
Nkosi SJ	192,040	73,304	20,868	27,873	2,536	316,621
Nkosi SZ	192,040	73,304	20,868	27,873	2,536	316,621
Nkosi VL	126,769	57,120	20,868	44,592	2,079	251,428
Ntuli FJ	149,642	57,120	20,868	21,719	2,022	251,371
Phakathi FDM	149,642	57,120	20,868	21,719	2,022	251,371
Shabangu LD	171,361	57,120	20,868	-	2,379	251,728
Sikhakhane NB	149,642	57,120	20,868	21,719	2,022	251,371
Simelani JD	149,642	57,120	20,868	21,719	2,022	251,371
Soko JP	111,664	57,120	20,868	59,697	2,117	251,466
Steenkamp ML	149,642	57,120	20,868	21,719	2,022	251,371
Thomo NG	149,642	57,120	20,868	21,719	2,022	251,371
Vilakazi RG	271,017	103,890	20,868	40,653	3,507	439,935
Vilakazi VV	46,858	17,962	6,956	7,029	647	79,452
Zulu TW	149,642	57,120	20,868	21,719	2,022	251,371
Zwane TE	149,642	57,120	20,868	21,719	2,022	251,371
	6,591,672	2,561,828	895,585	1,093,854	91,600	11,234,539

31. Depreciation

Infrastructure
Community
Landfill site
Property, plant and equipment
Other property, plant and equipment

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40,782,767

34,439,869

1,923,669

1,620,692

1,721,114

1,357,456

334,909

220,481

2,097,205

1,587,685

46,859,664

39,226,183

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32. Finance costs		
Trade and other payables	-	165,926
Finance leases	84,623	114,122
	84,623	280,048
33. Rehabilitation provision movement		
Landfill sites	5,495,646	3,315,539
34. Debt impairment		
Debt impairment	55,128,702	46,423,484
35. Repairs and maintenance		
Infrastructure assets	13,903,187	21,753,805
Office furniture, equipment and tools	1,793,811	-
	15,696,998	21,753,805
36. Bulk purchases		
Electricity	77,823,476	56,654,932
Water	8,120	5,239
	77,831,596	56,660,171
Electricity distribution losses are based on units purchased per invoices received from Eskom and units sold per prepaid reports and debtors system. It was determined to be R14 510 421 (2016: R28,833,525) and 23 839 290.88 units (2016: 22,084,859.24 units) for the financial year ending 30 June 2017.		
Water distribution losses are estimated per scheme for the financial year ended 2016. Carolina and Badplaas are approximately 5-10% due to leakages as the plants are closely monitored. For the rest of the plants listed below the losses ranges between 20-30%		
• Eerstehoek		
• Ekulindeni		
• Empuluzi		
• Methula		
• Lusushwana		
37. Contracted services		
Security services	15,854,912	19,735,362
Consultants	11,439,156	18,548,712
Operational contractors	3,991,596	4,661,444
Standby-contractors	642,956	1,154,463
Other contractors	1,912,552	3,562,977
	33,841,172	47,662,958
38. Loss on disposal of assets		
Property, plant and equipment	-	336,761

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Figures in Rand	2017	2016
39. General expenses		
Advertising	372,109	146,075
Audit committee fees	76,750	263,582
Bank charges	508,930	338,657
Capacity building	167,000	50,700
Chemicals	8,115,767	5,139,593
Commission paid	2,756,219	-
Committee costs	2,405,000	2,805,421
Consumables (recoveries) cost	(296,484)	(122,374)
Convention bureau	1,708,816	316,372
Entertainment	79,849	4,224
External audit fees	4,257,812	3,818,065
Hostel charges	750,303	728,648
Insurance	6,307,423	1,376,406
Interview costs	59,518	4,880
Lease rentals on operating lease	822,307	904,981
Legal expenses	2,620,007	1,046,402
Licence fees	3,700,595	995,663
Local economic development	241,200	299,286
Magazines, books and periodicals	2,425,375	1,112,410
Motor vehicle expenses	3,761,851	5,367,481
Other expenses	4,168,744	5,938,563
Postage and courier	2,028,985	1,478,614
Printing and stationery	721,538	651,086
Spatial planning	4,070	153,916
Staff welfare	21,749	-
Stock adjustment: Water	-	2,305
Subscriptions and publications	633,197	808,078
Telephone and fax	1,901,283	1,860,978
Transport and freight	1,968,730	2,746,819
Training	50,036	151,248
Uniforms and overalls	1,400,298	1,386,197
VIP toilets not capitalised	(40,832)	-
	53,698,145	39,774,276
40. Fair value adjustments (loss) / gain		
Investment property (Fair value model)	16,567,922	32,805,091
Investments		
• Investments	(86,230)	(87,941)
	16,481,692	32,717,150
41. Auditors' remuneration		
Fees	4,257,812	3,818,065



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42. Cash generated from operations		
Surplus	88,548,345	113,450,727
Adjustments for:		
Depreciation and amortisation	46,842,633	40,980,017
Gain on sale of assets and liabilities	-	336,761
Fair value adjustments	(16,481,692)	(32,717,150)
Finance costs - finance leases	84,623	114,122
Allowance for debt impairment	55,128,702	46,423,484
Movements in provisions	5,580,269	(3,315,359)
Actuarial loss on long service	(954,568)	506,711
Donations	-	(3,729,658)
Actuarial gain on post retirement	-	(746,807)
Gain on disposal of assets	-	1,765,918
Provision for leave	(334,234)	1,145,342
Interest on Long service award	-	2,205,000
Changes in working capital:		
Inventories	(463,917)	(265,220)
Receivables from exchange transactions	(21,301,840)	(36,158,326)
Receivables from non-exchange transactions	(41,729,944)	(29,614,114)
Payables from exchange transactions	32,258,604	25,647,009
VAT	(20,393,691)	(4,123,774)
Unspent conditional grants and receipts	(1,581,930)	(2,284,104)
	125,201,360	119,620,579

43. Commitments

Authorised capital expenditure

Authorised operational expenditure

Already contracted for but not provided for

• Infrastructure	158,356,162	185,867,277
• Operational capital	53,790,721	70,592,007
	212,146,883	256,459,284

This committed expenditure relates to infrastructure and community assets and will be financed by accumulated surpluses and extended funding.

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44. Contingencies

Litigations in the process against the Municipality relating to civil claims include the following:

Grand Valley Estates (Pty) Ltd	10,000,000	10,000,000
Lebea & Maduna	1,114,433	1,114,433
Germiston West CC	400,000	150,000
Gelani Properties	60,000	60,000
IFJ Properties	1,500,000	1,500,000
JM Mathebula	350,000	350,000
Lerato Masilo	500,000	500,000
Silindile Mabuyakhulu	300,000	300,000
Sobek Engineering	5,693,769	5,693,769
Sifiso Thela	120,000	138,000
I @ Consulting	2,750,131	2,750,131
Minister of Water and Sanitation	260,000	-
Maximum Profit Recovery Pty LTD	490,521	-
Nanati Enterprising and Civil Works	260,000	-
Shatadi Auctioneers and Asset Disposal CC	195,000	-
Khumalo Mantombi Martha obo khumalo Sabelo Xolane	180,000	-
Alpheu Electrical building and Civil Construction Pty LTD	370,000	-
Mhlanga J F	170,000	-
	24,713,854	22,556,333

Grand Valley Estates (Pty) Ltd

This claim stems from the dispute over the farms around Badplaas. The plaintiffs are claiming loss of future income and goodwill while on the other hand the farms are a subject of claim in the Land Claims Commission. The Municipality is cited as party for failure to comply with various forms of legislation. The summons has been served to the Municipality on the 6th of July 2010. The probability of success in this matter is less than 50%. The potential liability is estimated at R10,000,000.

Lebea and Maduna Consulting Engineering

In this matter plaintiff issued summons against the Municipality for a claim in the amount of R1,114,433 of which the plaintiff alleges to be due to it for services rendered to the Municipality. The probability of success in this matter is less than 50%.

Germiston West CC

An order was granted against the Municipality to take steps against (Cambridge Dlamini) and other occupiers of the property for an interdict to stop the building activities on this property and to proceed with the eviction of the occupiers on the property. The potential liability is estimated at R400,000.

Gelani Properties

The Municipality is claiming the land that belongs to them from Gelani Properties, Vos Viljoen Becker Incorporated. This matter is still pending due to the fact that the Municipality must appoint a land surveyor to rezone the land. The potential liability is estimated at R60,000.

JM Mathebula

The matter emanated from the claim that was brought by Mr. Mathebula against the Municipality after electricity disconnection at his business premises and as a result he alleges he has suffered a financial loss. The probability of the claim being successful is less than 50%. The potential liability is estimated at R350,000.

Lerato Masilo

The action against the Municipality is for damages to the sum of R137,813 The plaintiff alleges that on 19 April 2014 the Municipality failed to maintain the Elukwatinini main road and as a result her car drove into a large pot hole and was severely damaged. The potential liability is estimated at R500,000.

Silindile Mabuyakhulu

Miss Silindile Mabuyankulu is demanding R300,000. for damages emanating from a disciplinary hearing. The Municipality is disputing the claim as unfounded and invalid. The probability of success in this matter is less than 50%.

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44. Contingencies (continued)

Sfiso Thela vs Municipality

Plaintiff is suing council in respect of damages suffered as a result of a motor vehicle accident that occurred between his car and that of the council. The potential liability is estimated at R120 000.

I @ consulting

On this matter the notice of intent to defend is drafted, Attorneys are awaiting the advocates confirmation on the consultation at the court. The potential liability is estimated at R2,750,131.

Minister of Water and Sanitation

The Council is sued for R4,500,000 plus mora interest at a rate of 10.5% per annum from the date of issuing summon to the date of payment thereof, in respect of water use charges. The financial exposure is R260,000.

Maximum Profit Recovery Pty LTD

The applicant was seeking an interdict from Court Mandating Council to honour in terms of service agreement concluded between the parties. The financial exposure is R490,521.

Nanati Enterprising and Civil Works

The Council is sued for R28,808,108 plus mora interest at a rate of 10.5% per annum from the date of issuing summon to the date of payment thereof, in respect of services rendered at Council's special instances and request. The financial exposure is R260,000.

Shatadi Auctioneers and Asset Disposal CC

The Council is suing Shatadi Auctioneers and Disposal CC for R731,926 in respect of transaction, wherein the auctioneer was at, the conclusion of the auction on behalf Council, however the auctioneer failed to do so. The financial exposure is R195,000.

Khumalo Mantombi Martha obo khumalo Sabelo Xolane

The Plaintiff is suing Council amount of R10,000,000 in respect of delictual claim. It is alleged that the child of the plaintiff was electrocuted and was severe burnt by a live electric cable which carries 400 to 415 volts and as direct consequences thereof, he sustain serious and permanent injuries on his body. The financial exposure is R180,000.

Alpheu Electrical building and Civil Construction Pty LTD

The Applicant was seeking an order from court, ordering Council to pay an amount of R826,775 to the applicant, in respect of services rendered. The financial exposure is R370,000.

45. Related parties

Relationships

Accounting Officer
Controlled entities
Joint ventures
Associates

Refer to accounting officer's report note 29
Refer to note 29
Refer to note 30
Refer to note 30

No transactions were entered into with related parties to the municipalities and close family members during the year.

46. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

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46. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2017	2016
Cash and cash equivalents	398,284	398,284
Receivables from exchange transactions	44,521,462	38,480,674
Receivables from non-exchange transactions	81,426,966	81,426,966
Other financial assets	3,459,427	3,459,427

47. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

48. Fruitless and wasteful expenditure

Opening balance	14,131,195	7,788,324
Eskom - Interest	2,174,395	4,350,241
SARS: Interest and penalties	1,448,720	1,865,426
Auditor General of South Africa	104,876	84,352
SARS VAT	77,969	-
Telkom	1,395	2,377
MCPF	-	8,399
SALAPF	4,473	-
Sanlam	53,067	14,282
NFMW	1,211	690
MEPF	121,483	29,644
MGF	-	2,860
	18,118,784	14,146,595

The total fruitless and wasteful expenditure was referred to council for further investigation.

49. Irregular expenditure

Opening balance	269,762,010	197,715,521
Add: Irregular Expenditure - current year	83,520,814	72,046,489
	353,282,824	269,762,010

Details of irregular expenditure – 2017

	Disciplinary steps taken/criminal proceedings	
Advert for less than prescribed period	None	2,731,134
Bid adjudication Committee not complying with Regulation 29(2)	None	37,955,765
Procurement Process not followed	None	20,005,124
Not Advertised on CIDB	None	4,230,562
Local Content Not Implemented	None	15,789,861
Expired Contract	None	759,562
Deviations	None	174,855
Invalid contract extension	None	1,873,951
		83,520,814

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49. Irregular expenditure (continued)

Details of irregular expenditure - 2016

		Condoned by (condoning authority)	
Advert for less than the prescribed period	None		4,794,922
Bid adjudication committee not complying with Regulation 29(2)	None		18,667,216
Evaluated bids using the incorrect preference point system	None		153,751
Procurement process not followed	None		23,888,018
Not advertised on CIDB	None		12,427,469
Local content not implemented	None		12,063,756
Interest in other state institution	None		51,357
			72,046,489

Council has investigated the irregular expenditure and recommended that the irregular expenditure be written off after consultation with the National Treasury.

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to SALGA

Opening balance	14,290	5,682
Current year subscription / fee	82,037	78,561
Amount paid - current year	(76,356)	(64,271)
Amount paid - previous years	(14,290)	(5,682)
	5,681	14,290

Audit fees

Opening balance	3,136,061	2,721,429
Current year subscription / fee	4,772,836	3,830,664
Amount paid - current year	(2,006,758)	(1,033,878)
Amount paid - previous years	(190,978)	(2,382,154)
	5,711,161	3,136,061

PAYE and UIF

Opening balance	10,431,861	1,494,845
Current year subscription / fee	20,360,392	18,784,923
Amount paid - current year	(1,942,369)	(8,353,062)
Amount paid - previous years	(10,431,861)	(1,494,845)
	18,481,023	10,431,861

Pension and medical aid deductions

Opening balance	8,807,362	2,669,566
Current year subscription / fee	40,230,382	36,573,396
Amount paid - current year	(30,890,755)	(27,766,034)
Amount paid - previous years	(8,807,362)	(2,669,566)
	9,339,627	8,807,362

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50. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	24,572,953	4,179,262
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VAT output payables and VAT input receivables are shown in note 52.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

30 June 2017	Outstanding	Outstanding	Total
	less than 90	more than 90	R
	days	days	
Shabangu, LD	51,575	11,766	63,328
Magula KE	5,203	173	5,376
Magagula MP	4,934	97	5,031
Mthembu SE	2,192	132	2,324
Madonsela KA	-	1,114	1,114
Shongwe JD	5,398	173	5,571
Mkhonza PB	3,540	277	3,817
Zulu LS	26,611	1,020	27,630
Malaza MA	12,434	616	13,050
Linda MB	5,198	108	5,306
	117,085	15,477	132,548
30 June 2016	Outstanding	Outstanding	Total
	less than 90	more than 90	R
	days	days	
Shabangu, LD	13,650	48,205	61,855
Malaza, STQ	301	1,284	1,585
Mayaba, LM	332	332	654
	14,283	49,811	64,094

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50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

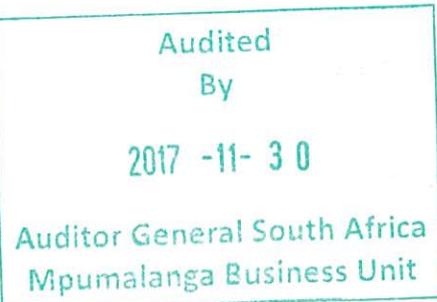
Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Council. The expenses incurred as listed hereunder have been condoned.

Incident

Sole service provider	73,359	133,339
Emergency	-	857,600
Impractical	364,110	229,297
Ratification	-	859,652
	437,469	2,079,888



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51. Budget differences

Material differences between budget and actual amounts

Revenue from exchange transactions:

51.1 Service charges

Service charges decreases relating to electricity experienced as a result of commercial and distribution losses incurred. Water revenue service charge attributable to distribution losses incurred such as water leaks and ageing pipeline infrastructure

51.2 Rental income

Due to operating leases that were reviewed and increased

51.3 Interest received - consumers

Increase in debtors resulted in higher interest earned on outstanding debtors

51.4 Licence and permits

This function was transferred to the Department of Community Safety Security and Liaison

51.5 Other income

District constructed assets donated to the Municipality

50.6 Interest received - investment

Surplus cash not needed immediately was invested in short term investments, however the interest earned was less than the long term investment

50.7 Property rates

Supplementary valuation roll increased the property valuation

51.8 Government grants and subsidies

Capital conditional grants (MIG, WSOS, INEP) recognised as revenue after the conditions of the grants were met

51.9 Donations

Donated assets are normally not budgeted for, assets donated by the Gert Sibande District Municipality

51.10 Fines

The implementation of iGrap resulted in higher revenue generated based on the number of tickets issued

51.11 Employee related costs

As a result of an increase in overtime, stand allowances, medical aid, post retirement benefits and acting allowances, additionally, some posts were upgraded

51.12 Remuneration of councillors

Vacant positions not filled

51.13 Depreciation and amortisation

The review of the useful lives of assets resulted in a lower depreciation than anticipated

51.14 Rehabilitation costs

Ekulindeni dumping was not accounted for in the previous years

51.15 Finance costs

Interest was paid on outstanding invoices and provisions

51.16 Allowance for debt impairment

Increase in debtors resulted in increase in provision in terms of GRAP

51.17 Repairs and maintenance

Old infrastructure that was transferred to the Municipality by the Department of Water Affairs

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51. Budget differences (continued)

51.18 Bulk purchases

High demand in peak seasons which exceeded NMD

51.19 Contracted services

Service providers appointed as needed, on a risk basis, and payments done based on the collection rate

51.20 General expenses

The Municipality implemented cost curtailments strategies to focus on basic services

51.21 Loss on disposal of assets

Redundant assets identified and removed during the year under review

51.22 Inventories

Additional consumable inventory items were acquired and not fully utilised during the period under review

51.23 Investments

Cash not needed immediately was invested in short term investment

51.24 Operating lease asset

Management oversight during the budget process

51.25 Receivables from non-exchange transactions

The receivables from both the exchange and non-exchange were budgeted under one line item on the statement of financial position

51.26 VAT receivable

Management oversight during the budget process

51.27 Receivables from exchange transactions

The receivables increased on monthly basis Municipality unable to fully implement the Credit Control and Debt Collection Policy in all areas

51.28 Cash and cash equivalents

Cash not needed immediately was invested in short term investment

51.29 Investment property

It was an oversight from the municipality that the investment property will increase in the 2015/16 financial year

51.30 Property, plant and equipment

Additional MIG allocation received

51.31 Finance lease obligation (current and non-current portion)

It was an oversight from management during the budget process

51.32 Payables from exchange transactions

Cash flow challenges affected the payment of service providers

51.33 Unspent conditional grants and receipts

The Municipality anticipated that all conditional grants will be spent at year-end

51.34 Provisions

Amount based on the assumptions made by the actuaries and the provision for the accumulated leave

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51. Budget differences (continued)

51.36 Long service award accrual

Provision for long service awards based on the actuaries' calculations

51.37 Accumulated surplus

The accumulated surplus is from the total revenue and expenditure from the financial year however not all the anticipated revenue was generated

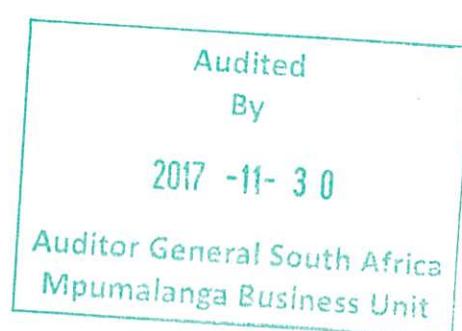
52. VAT receivable / (payable)

VAT	24,572,953	4,179,262
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VAT is payable on the cash basis. VAT is paid over to SARS only once payment is received from receivables. All VAT returns were submitted throughout the year.

53. Prior period errors

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of compartives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.



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53. Prior period errors (continued)

Property, plant and equipment

Statement of Financial Performance for the year ended 30 June 2016	Balance as previously reported	Prior period error	Restated balance
Revenue			
Service charges	35,144,258	(3,821,473)	31,322,785
Rental income	2,642,970	-	2,642,970
Interest received - consumers	24,484,144	-	24,484,144
Interest received - investment	2,244,682	-	2,244,682
Licences and permits (exchange)	1,944,052	-	1,944,052
Other income	1,347,507	-	1,347,507
Gain on disposal of assets	(79,218)	-	(79,218)
Property rates	54,586,759	-	54,586,759
Government grants and subsidies	350,719,178	-	350,719,178
Donations	3,729,658	-	3,729,658
Fines	5,213,955	-	5,213,955
Rehabilitation provision movement	3,315,359	-	3,315,359
Total revenue	485,293,304	(3,821,473)	481,471,831
Expenditure			
Employee related costs	136,065,413	-	136,065,413
Remuneration of councillors	15,028,644	-	15,028,644
Allowance for debt impairment	46,423,484	-	46,423,484
Depreciation and amortisation	40,980,017	(18,138)	40,961,879
Finance costs	280,048	-	280,048
Repairs and maintenance	21,753,805	-	21,753,805
Bulk purchases	56,660,171	-	56,660,171
Contracted services	47,662,958	-	47,662,958
Loss on disposal of assets	336,761	-	336,761
General expenses	39,783,717	-	39,783,717
Total expenditure	404,975,018	(18,138)	404,956,880
Operating surplus / (deficit)	80,318,286	(3,803,335)	80,318,286
Fair value adjustments	(87,941)	32,805,091	32,717,150
Revaluation surplus	-	60,653,700	60,653,700
Surplus / (deficit) for the year	80,230,345	89,655,456	173,689,136

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53. Prior period errors (continued)

Statement of Financial Position as at 30 June 2016

Assets

Current Assets

	Balance as previously reported	Prior period error	Restated balance
Cash and cash equivalents	398,284	-	398,284
Receivables from exchange transactions	38,480,674	(3,821,473)	34,659,201
Receivables from non-exchange transactions	88,179,828	-	88,179,828
Inventories	2,509,045	-	2,509,045
Investments	3,151,809	-	3,151,809
Operating lease asset	4,179,262	-	4,179,262
VAT receivable	882,283	-	882,283
Total current assets	137,781,185	(3,821,473)	133,959,712

Non-current Assets

Investments	307,618	-	307,618
Investment property	19,142,500	34,939,600	54,082,100
Property, plant and equipment	957,372,846	51,241,926	1,008,614,772
Total non-current assets	976,822,964	86,181,526	1,063,004,490

Liabilities

Current Liabilities

Payables from exchange transactions	212,373,102	-	212,373,102
Unspent conditional grants	2,664,288	-	2,664,288
Finance lease obligation	493,012	-	493,012
Provisions	2,707,448	-	2,707,448
Total current liabilities	218,237,850	-	218,237,850

Non-current Liabilities

Finance lease obligation	430,853	-	430,853
Employee benefit obligation	10,338,000	-	10,338,000
Provisions	22,542,992	-	22,542,992
Long service awards	7,423,000	-	7,423,000
Total non-current liabilities	40,734,845	-	40,422,405

Net Assets

Accumulated Surplus / (deficit)	831,584,691	21,724,491	853,309,182
Revaluation Reserves	24,046,763	60,653,700	84,700,463
Total net assets	855,631,454	82,378,191	938,009,645

1. Work in Progress

Expenditure incorrectly capitalised under work in progress in the previous financial year.

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53. Prior period errors (continued)

Effect of the adjustment

Decrease of Work in Progress	-	(7,277,266)
Decrease of Accumulated surplus	-	7,277,266
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2. Land

Revaluation of land not performed in the previous financial year end in accordance with the accounting policy. The revaluation was performed using the valuation roll effective 01 July 2016.

Effect of the adjustment

Increase of Land	-	60,653,700
Increase of Revaluation reserves	-	(60,653,700)
	<hr/>	<hr/>

3. Buildings

Buildings were previously incorrectly classified as owner occupied property instead of Investment Properties.

Effect of the adjustment

Increase of Investment property carrying amount	-	1,076,060
Decrease of Building carrying amount	-	(1,076,060)
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4. Community assets

Investment property previously incorrectly classified as community assets.

Effect of the adjustment

Increase of Investment property	-	1,058,449
Decrease in Community assets	-	(1,058,449)
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5. Investment properties

Fair valueing of Investment property was not performed in the previous financial year end in accordance with the accounting policy.

Effect of the adjustment

Increase of Investment property	-	32,805,091
Increase of Accumulated surplus	-	(32,805,091)
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6. Revenue

Revenue was overstated in the prior period.

Effect of the adjustment

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53. Prior period errors (continued)

Decrease of Revenue	-	3,821,473
Decrease in Receivables	-	(3,821,473)
	-	-

7. Commitments

Adjusted prior period commitments with R101 039 868.
The restated opening balance is now R256 459 284t

54. Unauthorised expenditure

Opening balance	77,077,842	-
Unauthorised expenditure	57,478,201	52,302,635
Other	-	24,775,207
Write-off	(77,077,842)	-
	57,478,201	77,077,842

The report on unauthorised expenditure for prior year was submitted to Council for investigation. MPAC investigated and recommended that the expenditure be written-off.

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